

UNIT 1

Business in the Global Economic Environment



- 1 **Economic Decisions and Systems**
- 2 **Economic Activity**
- 3 **Business in the Global Economy**
- 4 **Social Responsibility of Business and Government**



business outside the box

Drinks for Developing Countries

Vitingo, an orange-flavored drink, not only provides refreshment but also could save lives. The Coca-Cola Company offers the product in Botswana and other countries. This juice drink contains 12 vitamins and minerals to help reduce anemia, blindness, and other health problems among children in developing economies.

The drink originally sold for about 20 cents for an 8-ounce liquid serving. Even at that price, few could afford it in these very poor nations. A revised formula of the drink reduced costs—and the price—making Vitingo more affordable to those who need it most. This effort is a part of Coca-Cola's strategy to increase sales of

its major products. In addition, the company is contributing to the health and well-being of people living in very difficult situations.

Think Critically

What are some products and services that companies could offer to improve quality of life around the world?

Is It Really Organic?

Increasing health consciousness and concerns about food safety have led to a strong growth in demand for organic foods. Organic crops are raised without using pesticides and without fertilizers derived from petroleum or sewage sludge. Organically raised animals eat organic feed and have access to the outdoors. They are not given antibiotics or growth hormones.

Organic food sales in the United States have grown an average of 20 percent each year since 1997. Organic foods are more expensive to produce but they return a greater profit.

Most organic foods are sold to customers who purchase from small local farmers.

Large companies have been working to develop ways to capture a part of the growing market but have struggled to gain consumer confidence. Some consumers don't trust that a large corporation can actually produce organic food. They are more likely to believe that a local organic farmer follows the practices required to insure organic quality standards.

Dole Foods places a sticker on each of its organic bananas, but it is no ordinary sticker. The sticker

includes a three-digit farm code and an invitation to visit their web site. When the farm code is entered, the visitor is linked to a profile of the farm where the fruit was grown. In addition to the name and location of the farm, information about organic certification is included.

Think Critically

Why are people willing to pay higher prices for organic foods? If large companies are able to sell organic products successfully, what kinds of problems will small organic farmers face?

CHAPTER 1

Economic Decisions and Systems

1-1 Satisfying Needs and Wants

1-2 Economic Choices

1-3 Economic Systems

1-4 Supply and Demand



© Getty Images/PhotoDisc

Planning a Career in...

CORPORATE ECONOMICS



Economists play an important role in the business world. They are often asked to be fortunetellers. They try to predict what economic changes are coming. This is a very important task, as businesses and government officials use these predictions to make decisions that affect the economic future. Most economists work in government positions, for businesses and business associations, or as teachers and professors in colleges and universities.

Economists working for corporations forecast the size of markets, changes in consumer demand, and changes in sales and costs. They analyze competitors' growth and market share and advise their company on how to plan. Today, economists pay attention to the international economy and the economic conditions in countries where the company currently operates or plans to expand.

Employment Outlook

- More than half of all economists work for corporations or industry associations that provide research and information to businesses.
- Opportunities for corporate economists should be good in the future. The need for economists results from increased competition and the importance of the global economy. Businesses increasingly rely on statistical analysis to support decisions.
- Economists need at least a master's degree and many obtain a doctorate as they move into senior-level positions.
- Specialized opportunities are available in banking, finance, insurance, and the securities industry.

Related Job Titles

- Senior Economist
- Quantitative Analyst
- Forecaster
- Research Assistant

Needed Skills

- Mathematics, statistics, econometrics, research design, and computer science
- Attention to detail to ensure accuracy of data analysis
- Work independently and for long hours gathering and analyzing information
- Present findings, both orally and in writing, in a clear, concise manner

What's it like to work in... Corporate Economics

Pierre Latrobe is on his way to the office at 4 a.m. each morning. As an associate analyst, he helps prepare a morning briefing. He is responsible for tracking changes in the European economy.

Each morning the senior economist participates in a video-conference connecting eight international offices. She uses the information prepared by her team to review daily changes in financial markets, preview trends in interest rates and costs of commodities, and identify any important government actions. A summary report is e-mailed to the executives and team members are available after the conference to further interpret the information.

On the commuter train, Pierre uses his PDA to get the latest information from the major stock markets. Then he checks the international news services for important stories that might affect the European economy. He updates forecast charts and enters notes.

What about you? What do you like and dislike about Pierre Latrobe's schedule and activities? What do you think happens in the team meetings as Pierre and his colleagues prepare the morning briefing?



© Getty Images/PhotoDisc

Satisfying Needs and Wants



Goals

Explain the difference between needs and wants.

Distinguish between goods and services.

Describe the types of economic resources.

Key Terms

needs

wants

goods

services

economic resources

Focus on Real Life

Gina and Jermaine walked into an electronics store to look at the new portable digital video and music player that had just been released. It could store more than 2,000 songs in memory, and the small ear bud headphones were supposed to have an amazing sound reproduction capability.

As they stood in line, Jermaine said, "I don't know if the player is worth the \$400 price. I hear you can get the older model for only \$150."

Gina responded, "I know. The size is smaller, it is much more durable, and holds large digital files of music or video. If the sound quality is as good as they say it is, I think many people will want to buy one. If we wait a few months, the price might drop. Are you sure you need it right now?"

Jermaine's decision is one you often face. You often hear about exciting new products, but you do not need and cannot afford all of them. How do you decide what to buy and how much to pay?

main idea

Explain the difference between needs and wants.

NEEDS AND WANTS

Hardly a day goes by that you don't see a product or service that you would like to have. You see them in the shopping mall, the grocery store, or while surfing the Web. Advertisements on television, radio, or the Internet attempt to convince you that you need whatever is new. How do you decide what to buy or even if you need to buy at all?

Needs Are Essential

You want many things, but do you really need them? Determining what is a need and what is a want is an important part of making good decisions.

Things that are required in order to live are known as **needs**. Everyone needs food, water, clean air, clothing, and shelter. Other needs in today's economy are a

good education, employment, and safety. Most people need transportation to get to and from school and work. People who have health problems need medical care and medicines.



How easy is it for you to meet your basic needs?

Wants Add to the Quality of Life

Things that add comfort and pleasure to your life are **wants**. You may believe you can't live without the latest fashion, CD, or movie, but you can and many people do. A small apartment meets the need for shelter, but many people want a large house or a vacation home at the beach. It is possible to use public transportation to get around in the city, but driving a new car with luxury options adds convenience and an image of success.

It is not always easy to determine products and services that are needs and those that are wants. The country in which you live, the economic status and lifestyle of your family, and the work you do help determine whether something is really necessary or not. Most products and services you purchase do more than meet your needs. They make your life easier and more comfortable.

Needs and Wants Are Unlimited

Your needs and wants never end. You are limited only by your imagination and by what businesses make available for sale. A new style convinces you your current jacket is no longer adequate. One purchase leads to another. You purchase the latest model video game player and now you need a new set of games. A new pair of shoes may require matching accessories.

Your wants can go on and on. They change from day to day. Something you thought you couldn't live without two days ago now doesn't seem as important and is replaced by a new want. Everyone has unlimited wants. Those wants are not the same for each person.

checkpoint >>

What is the difference between a need and a want?

Work as a Team

Do you believe your needs are very similar to or quite different from those that your parents had when they were your age? As a team, prepare a list of five needs that you agree would be similar to those of your parents when they were young and a list of five needs that you agree would likely be different. Justify why those listed are needs and not wants.



GOODS AND SERVICES

You satisfy your needs and wants by purchasing and consuming goods and services.

Goods are things that you can see and touch. They are the products you can purchase to meet your wants and needs.

Services are activities that are consumed at the same time they are produced. Services are intangible, meaning they have no physical characteristics. You use services as well as goods to satisfy your wants and needs, but they must be provided to you at the time you want to consume them.

main idea

Distinguish between goods and services.



© Rubberball Productions

Does the service industry satisfy more needs or more wants?

Goods and Services for Businesses and Consumers

Goods and services are purchased by businesses as well as by consumers. Some goods and services are unique for business or consumer use. Others are similar but meet different needs.

A business needs steel, plastic, gasoline, and computers in order to operate. It must have a constant supply of electricity, security for buildings and equipment, and accountants who maintain records and file tax returns.

Consumers buy watches, televisions, cell phones, and books. They eat at restaurants, go on vacations, and take their car to the auto dealer for service and repairs. Businesses supply the goods and services that meet business and consumer needs and wants.

main idea

Describe the types of economic resources.

The U.S. Economy

The United States is the largest producer of goods and services in the world. Americans consume more than any other country. In fact, America has twice as many shopping malls as it does high schools! America's lead in consuming goods and services increased throughout the 20th century and continues today. The move to an industrialized economy

resulted in higher incomes which could be spent on consumer products. The consumer economy provides many advantages, but also results in problems. For example, Americans produce more garbage per person per year than the residents of any other country.

Americans often incur debt through obtaining loans and using credit cards. Not all consumption is excessive and not all Americans purchase beyond their means to pay. In fact, many demonstrate financial responsibility through saving and investing their money rather than spending. This enables them to accumulate enough money to finance a car, pay for additional education, or save for retirement.

Some believe the high level of U.S. consumer demand stems from the sheer quantity of goods and services available and the amount of money businesses spend to advertise their offerings. Spending opportunities occur daily and require careful decisions to make sure important needs and wants are satisfied in the future as well as today.

checkpoint >>

How do people satisfy their wants and needs?



ECONOMIC RESOURCES

How do you get the goods and services you need and want? Few are free. Individuals no longer create most of the products and services they consume as they did many years ago. Economic resources are needed.

Economic resources are the means through which goods and services are produced. Economic resources are called *factors of production*. The three kinds of economic resources are natural resources, human resources, and capital resources. Businesses and individuals use resources to produce goods and services.

What natural resources are found near your home?

Natural Resources

Raw materials supplied by nature are *natural resources*. The earth contains oil, minerals, and the nutrients needed to grow crops and timber and to feed animals. Rivers, lakes, and oceans are the sources of both food and water. The air you breathe comes from the atmosphere that surrounds you. All products you consume begin with one or more natural resources.

Consider something as simple as a can of chicken noodle soup. What natural resources were used in its production? The chickens, vegetables, and spices are the result of crops and animals raised on rich farmland. The water is extracted from wells or reservoirs that were filled by rain. Aluminum was extracted from the ground and used to produce the container.

The earth contains a variety of minerals, plants, fish, and animals. However, the supply of many natural resources is limited. Increased consumption as well as damage to the environment threatens the natural resources of many regions of the world. Conservation practices as well as the production of more efficient products help to preserve resources.

Human Resources

The people who produce goods and services are known as *human resources*. In the example of the chicken noodle soup, many people are needed to complete the work required to produce that product. Farmers raise the livestock and crops. Factory workers and managers use equipment designed by engineers and manufactured by the employees of other businesses to process the food. Truck drivers, salespeople, advertisers, and supermarket employees are also involved in producing the product and making it available to consumers for purchase.

One type of human resource is an entrepreneur. An *entrepreneur* is the

FYI

Even water, one of the most common substances on the planet, is a scarce natural resource, especially in the western United States. Disputes among southwestern states over water rights and access to the major riverways result in frequent political debate and court actions. Water will likely become a more important natural resource in the future.

risk taker who uses resources in an entirely new way to create a new product or service. Without the creative ideas of entrepreneurs and their belief that they can develop a successful business, there would be fewer choices of goods and services and fewer employment opportunities.



© Getty Images/PhotoDisc

In what ways does water contribute to the U.S. economy?

Capital Resources

People must have access to tools and equipment in order to convert natural resources into products. The products and money used in the production of goods and services are *capital resources*. Capital resources include buildings, equipment, and supplies. They also include the money needed to build a factory, buy or lease vehicles, pay employees, or purchase goods and services required to manufacture and distribute other goods and services.

Some people invest money in businesses so the business will have the capital needed to operate. Those people expect they will make money from the profits earned by the business. Other people receive



© Getty Images/PhotoDisc

What economic resources can you think of that go into the construction of a house?



Technology in Action

Online Micropayments

In the early years of the Internet, users expected information to be available free to anyone. Over time, Internet consumers started to accept that many web sites restricted access to content through the use of registrations, passwords, or, in some cases, annual or monthly membership fees. Today, due to the quality and variety of online content, consumers are more willing to pay for the types of products and services they otherwise would have to purchase elsewhere—music CDs, video games, movie tickets, magazines, and newspapers. The digital content business is growing rapidly and is expected to generate \$50 billion by 2009.

In 2005, more than 350 million songs were purchased for download. While that number sounds impressive, there is a major gap between online digital content sales of very low-cost products and services and

that of higher priced ones. People are willing to pay a small amount to use an online game, download a song, view a new music video, or watch a sporting event online but they want a quick and easy payment method. Businesses will make such products available if they can collect the small fees in an efficient and profitable way.

Micropayments are online payments too small to be affordably processed by credit card or other electronic payment methods. Most micropayments are under \$5 and may be as low as a few cents per transaction. Because of the limitations in payment options, micropayments currently make up less than 3 percent of all online digital content purchases.

New companies as well as industry giants are looking at ways to solve the micropayments problem. Peppercoin allows online merchants

to combine many small individual purchases into one larger transaction for processing so the cost and time required to process separate payments are reduced. Microsoft is testing its Microsoft Points system. With this system, consumers buy points in advance (1,600 points sell for \$20) and redeem them at the Xbox Live Marketplace. It is certain that new technologies will soon solve the micropayment problem due to the almost unlimited potential for digital content sales.

Think Critically

1. Why have consumers changed their views about the value of online content so they are now willing to pay small fees?
2. Research micropayments and identify new methods being used by companies to accept and process these small payments.

income by selling their knowledge and skills to businesses in the form of labor. Those with special skills or knowledge of important business processes often command higher incomes than those with knowledge and skills that are more common.

Resources Are Limited

All economic resources have a limited supply. Most resources can be used to produce several different products and services. If resources are used to produce one type of product, they will not be available for the production of something else.

Individuals, businesses, and even countries compete for access to and ownership of economic resources. Those resources that are in very high demand or that have a limited supply will command high prices. Because there is a limited amount of natural resources, there will also be a limit to the amount of goods and services that can be produced.

checkpoint >>

What are the three types of economic resources? Give an example of each type of resource.



© Getty Images/PhotoDisc

How can a country plan for future limits on its natural resources?

1-1

Assessment

Xtra!
Study Tools

school.cengage.com/business/introtobiz

Key Concepts

Determine the best answer.

- True or False. It is not always easy to determine the products and services that are needs and those that are wants.
- Which of the following would an economist most likely classify as a need?
 - gasoline
 - a college degree
 - a television
 - a part-time job to earn extra money
- An example of a natural resource is

a. sunlight	b. a computer programmer
c. a fishing net	d. money

Make Academic Connections

- Economics** List the three types of economic resources. Choose a product and describe how each economic resource is needed and used in its production. (Hint: refer to the chicken noodle soup example in the lesson.)
- Communication** Locate an article from a business publication or newspaper that illustrates the concepts of unlimited wants and needs and limited resources. Write a two-paragraph summary of the article that incorporates several of the key terms from the lesson.

1-2 Economic Choices



Goals

Understand the basic economic problem.

Explain the steps in the decision-making process.

Key Terms

scarcity

economic decision-making

trade-off

opportunity cost

Focus on Real Life

Tom is faced with a difficult decision. His friend Jacque just called and told him he had won two tickets to a concert, and he invited Tom to attend. Tom already promised his family that he would go with them to a restaurant to celebrate his father's birthday. Both activities are scheduled for the same evening, so it would be almost impossible to do both. He really wants to go with Jacque to the concert, but missing his father's birthday celebration might cause hard feelings. What advice would you give Tom about how he can resolve the dilemma?

main idea

Understand the basic economic problem.

THE BASIC ECONOMIC PROBLEM

Individuals and businesses have unlimited wants and needs. The economic resources they have are limited. The mismatch of unlimited wants and needs and limited economic resources is called *the basic economic problem*. You may want to purchase several products but have a limited amount of money. Your school may have to cut back on certain classes or extracurricular activities because operating costs are increasing faster than the annual budget. A business may want to expand but does not have access to adequate land for a new larger building. A country may not be able to provide adequate health care for all of its citizens because it does not have enough doctors or hospitals.

The basic economic problem results from scarcity.

Scarcity means not having enough resources to satisfy every need. Scarcity affects everyone, but some people are more affected than others. People with limited incomes have to carefully choose the best way to spend their money to meet their needs and wants. Countries with few natural resources or people with limited education and low skills may not be able to produce enough products and services for their citizens. Areas with poor



How do you make personal choices between your wants and your needs?

© Digital Vision

transportation or distribution systems or where few businesses are located may not have access to the variety of products and services found in other areas.

Choices

Everyone makes decisions based on scarcity. Individuals and families must decide how to spread their income among all of the things they want and need. City, state, and national governments must cope with the problem of providing the many services citizens demand using the tax dollars they collect. In each case, someone has to make the difficult choices.

Scarcity forces you to make *choices* or decisions among the alternatives. How do you decide which option is best? You usually choose the things you want the most or can afford. Suppose you earn \$75 a week from a part-time job. If you spend the money you earned this week on a new pair of shoes, you will not have enough left over to spend on a movie and pizza with your friends on Saturday night. Due to the limited resource or amount of money you have, you cannot afford everything. You must make a choice. You must decide which of your wants—the shoes or pizza and movie—you want the most. How do you determine which of these two options will satisfy you the most?

Following a logical process can help you make better decisions. It is a proven way to make many decisions, but is especially useful for making important economic decisions. **Economic decision-making** is the process of choosing which wants, among several options, will be satisfied. Once you learn the process, your decision-making will be easier and the process may lead to better choices.

Trade-offs and Opportunity Costs

Most of the choices you make result from considering a number of alternatives. When you decide on one alternative, you give up on the other alternatives you



Some of the most important choices anyone has to make are choices about money. There is no escaping it: If you want to buy things in this world, you need to have a steady supply of money on hand. A great way of ensuring that you won't overspend is to make a budget. Access the web site shown below and click on the link for Chapter 1. Click on the Activities link to learn the important factors that make up a personal budget. How might following this process help you make good choices about your spending?

school.cengage.com/business/introtobiz

might have chosen. When you give up something to have something else, you are making a **trade-off**. You aren't able to buy a pair of shoes because you decided to spend your money on a movie and pizza with your friends.

The decision-making process helps you select the best and most satisfying alternative from among a set of choices. Economists evaluate an alternative by considering the opportunity cost of a decision. The **opportunity cost** is the value of the next-best alternative that you did not choose. In making a personal decision, part of your choice will be what you are giving up by the choice you make. The benefit you get from your choice should be greater than the benefit from the next-best choice.

Businesses carefully calculate the opportunity costs of decisions before they make a decision about how they will invest their money. If they use money to purchase land for a new building, what choices must they give up? Would there be a greater value if they spent the money to purchase new equipment that is faster and more reliable? Part of the cost of the land is the missed opportunity to have better equipment.

checkpoint >>

What is opportunity cost?

main idea

Explain the steps in the decision-making process.

THE DECISION-MAKING PROCESS

There are six steps in the decision-making process. You will use the model shown in Figure 1-1 many times as you proceed through the chapters in this book. You will also use it in day-to-day decisions you make. Businesses and individuals use the process as they choose the best uses for their limited resources.

The Decision-Making Process

1. Define the problem.
2. Identify the choices.
3. Evaluate the advantages and disadvantages of each choice.
4. Choose one.
5. Act on your choice.
6. Review your decision.

FIGURE 1-1

How does the decision-making process lead to better choices?



1. Define the problem.

For every decision, the problem must be clearly defined in order to make a decision that will lead to a satisfying solution. If you only have two hours available to study for three tests, your problem is how to best use the limited amount of time to prepare for the tests.

2. Identify the choices.

It is common for you to face choices with many alternatives. Earlier we identified a problem deciding on the best use of \$75. Along with spending money on shoes or the movies and pizza, some other choices you might face are the cost of your lunch and the need to save money for college. In fact, there are many ways you might choose to spend (or save) your \$75. It is important to identify and then consider all of the alternatives when making a decision.

3. Evaluate the advantages and disadvantages of each choice.

You might find it helpful to write down your choices and then list the advantages and disadvantages of each choice. If you buy the new shoes, you will be able to wear them many times. It means you will miss the fun of pizza and a movie with friends on the weekend. If you choose to save some of the money, you may be able to make a

larger purchase later. You and your friends may determine a less expensive way to spend your time on the weekend.

4. Choose one.

Select the choice that you believe will be the best for you at this particular time. Even if you have done a good job with the first three steps, this is often a difficult step. Realize that choices have consequences that can lie in the future. If you choose option A, how might it affect you later, as well as right now?

5. Act on your choice.

Once you have made what you believe is the best decision, do whatever you have chosen. If you have decided to spend your money on a movie and pizza with your friends, go and enjoy yourself. Try not to worry about the choices you have decided against. Agonizing over a choice or regretting your decision after it is made can take away from the activity you decided upon. Life is full of choices. No matter what you do, there will be times when you will regret a decision even if you carefully considered the alternatives. The next step will help you with those situations.

6. Review your decision.

After you have had a chance to experience the results of your choice, it is important to review your choice. On a scale of one to ten, how would you rank your decision in terms of the level of satisfaction it provided? What was good and not so good about it? If you had to do it over again, would you make the same choice? Given what you know now, do you think there was a better alternative? Were there consequences you hadn't identified?

Based on your review of the decision, how well did you follow the steps of the decision-making process? This step gives you an opportunity to think about your decision and learn from it. Next time you face a similar decision, you may be more comfortable with your choices.

Work as a Team

You and some friends are meeting with city council members to ask them to build a skateboarding park that would cost \$30,000. They ask you to identify the opportunity costs of other recreation alternatives for teenagers. As a team identify two other alternatives for the city and discuss how you would determine the opportunity cost of each.



Some decisions have to be made quickly and some with very little information available. For most decisions, the decision-making process will help you make wiser choices.

checkpoint >>

What are the six steps in the decision-making process?

1-2

Assessment

Xtra!
Study Tools

school.cengage.com/business/introtobiz

Key Concepts

Determine the best answer.

1. True or False. The basic economic problem is that consumers have too many products and services to choose from.
2. The decision-making process is best to use when
 - a. you already know the choice you will make
 - b. you have adequate time to identify and analyze several choices
 - c. groups rather than individuals are making a choice
 - d. you don't have enough money to pay for any of the choices
3. John has two hours before having to go to his part-time job. He is deciding between studying for a math exam and taking a nap. If John chooses to take a nap, the opportunity cost of his decision is
 - a. the rest he is getting
 - b. the score he will earn on the math exam
 - c. the wages from his part-time job
 - d. all of the above

Make Academic Connections

4. **Communication** Write a one-page essay about a decision you made recently. Describe how you did or did not use the steps of the decision-making process. Discuss the outcome of your decision.
5. **Economics** Locate and read a news report describing a decision made by a business. Describe what you believe could be the opportunity cost of their choice. Justify your answer.



Sharpen Your Life Skills

Research Skills

Your abilities are more than just the sum of your experiences. Whether the goal is to improve a business or your own performance, you need to make sound decisions based on the best information available. Research skills are needed to improve decision-making.

Research is a systematic, objective study to establish facts and principles. The research process begins with a question or problem and results in a possible answer that can become the basis for further research.

Here are the steps to follow when conducting research.

Formulate a question. What is the problem you are facing or what is the issue you are trying to resolve? The question should be as specific as possible and relate to an important personal or business issue.

Gather and review information related to the question. Determine if others have studied the same problem and if they have reported on the results of their study. This step usually involves a careful search of library information, including books, magazines, and documents.

Separate fact from opinion. Effective research relies on objective data. The opinions of others may provide interesting ideas to consider but should not be relied on for answers to your question. Consider if the sources of information are credible and if the information provided is factual.

Propose a hypothesis. A hypothesis is a prediction about the answer to your research question. The hypothesis can be based on the information gathered, your experience, or your beliefs. You will conduct a study to gather information that will either support the hypothesis or determine that it is wrong.

Collect data to test the hypothesis. Researchers carefully design studies to gather information related to the question and hypothesis. The common methods of collecting data are the use of surveys, making observations, or conducting an experiment.

Analyze the data. After data has been collected, it is organized and then analyzed using statistical procedures. Careful review of the results of the data analysis will provide evidence to support or disprove the hypothesis.



© Digital Vision

Report the results. It is important that researchers document and report the results of their research. The report will help others understand the research and repeat it or improve upon it. It will also provide evidence that you were objective in the way you completed your research.

Put the research results into practice. You began the research process to answer a question or solve a problem. You need to apply what you learned and determine if what you learned makes a difference. No matter the results, you will want to continue to conduct research and study the research of others. It will help you make sound decisions and have confidence in your knowledge and abilities.

Think Critically

1. Why should you be careful of basing your actions on opinions rather than facts?
2. Do you believe some questions can be answered by just gathering and reviewing information rather than collecting data? Why or why not?

1-3 Economic Systems



Goals

Identify the three economic questions.

Differentiate among the main types of economic systems.

Describe the economic system of the United States.

Key Terms

economic system

command economy

market economy

traditional economy

mixed economy

capitalism

Focus on Real Life

Jiang Liang is a resident of modern-day China. His family lived for decades in a small farming community outside of Beijing. There, they faced strict government regulations on what they could and could not grow. Jiang was able to attend Beijing University, where he learned a great deal about computers. With this valuable skill, Jiang moved to Hong Kong, where he worked for a large multinational computer corporation. Jiang was surprised to learn that this company operated without any direct government oversight. The company produced as many computers as it desired and set prices at whatever level it thought best. Jiang has experienced two very different economic systems. Which seems the most like the economic system in the United States?

THE THREE ECONOMIC QUESTIONS

All economies (or nations) of the world face the basic economic problem of scarcity of resources. They also have citizens with many basic needs as well as unlimited wants. Each country must decide how the available resources will be used to meet the needs and wants. All economies must answer three economic questions.

1. What goods and services will be produced?
2. How will the goods and services be produced?
3. What needs and wants will be satisfied with the goods and services produced?

How the questions are answered indicates the type of economic system that exists in each country.

What to Produce?

Nations differ in the type and amount of resources just as individuals differ in

their skills and abilities. Some nations have rich soil and regular rains that yield large food supplies. Other nations have desert climates or long, cold winters that make farming difficult. Some countries have abundant supplies of oil, coal, and other energy sources, while many countries have only a limited supply. A nation will use its natural resources to

main idea

Identify the three economic questions.



What resources are necessary for large farm yields?

© Getty Images/PhotoDisc

Technology and mechanization have changed the way work is done. Today's jobs require less than one percent of the total muscle power used before the Industrial Revolution.

determine what can be produced. It can also decide to trade some of its resources with other countries to obtain those it needs.

Just as nations differ in the type and amount of resources, they also differ in their needs. One country may invest heavily in manufacturing, another in agriculture, and a third in security. Some nations have colleges and universities that produce a large number of skilled engineers and technology experts. Other countries have low literacy rates and many unskilled workers. Highways, roads, airports, and shipping ports may be highly developed and functional or transportation may be very difficult.

Deciding how to use resources and what to produce is a very difficult decision. If a country spends too much in one area, there may not be enough resources to meet other needs. If most resources are used to produce the products consumers want, not enough attention may be paid to meeting business needs.

How to Produce?

Nations must decide what combination of resources will best suit their circumstances. As a country develops, tasks that were traditionally performed using human skills, such as farming, are now performed with faster, more efficient tools and equipment. Two centuries ago, more than 80 percent of U.S. citizens were involved in agriculture. Today, less than 3 percent of the U.S. population produces the food the country consumes. The labor needs of the U.S.

economy have changed. The complex 21st-century economy requires highly specialized health care professionals, financial managers, computer specialists, and others who can design and produce the goods and services that you need and want.

Each country decides how to use its resources to produce the goods and services it needs. It may rely on unskilled or skilled labor, on advanced or simple technology, on its own resources or on those it obtains from other countries. Economic resources can be combined in different ways to produce similar goods and services.

What Needs and Wants to Satisfy?

Because wants and needs are unlimited, many will remain unmet when a country decides what goods and services to produce. A country must determine which needs and wants are the most critical when deciding what goods and services to produce. Some countries may decide to invest in capital goods, while others produce more consumer goods. Some countries devote more resources to producing the goods and services required by the government. Other economies respond to those citizens who have the most money or the most political power.

In the United States, goods and services are plentiful. What wants and needs you satisfy largely depends on how much money you have and how you choose to spend or save it. The amount of money you have available to spend depends a great deal on your education and ability and how you decide to use them to earn income.

checkpoint >>

What are the three economic questions?

TYPES OF ECONOMIC SYSTEMS

A nation's plan for answering the three economic questions is called its **economic system**. The type of system is based on how much the government is involved in the marketplace. There are several kinds of economic systems operating in the world today. Each is based on one of the three main types.

Command Economy

In a **command economy**, the resources are owned and controlled by the government. Government officials decide what and how goods are produced and how they will be distributed and shared. They decide how much of the resources will be used to produce goods and services for consumers, such as food products, vehicles, or houses. They also decide how much of the resources will be used to produce capital goods, including machinery, equipment, and factories.

In a command economy, the government may decide to build a superior military or a world-class education system. They may decide to spend money to research new technologies or to build housing for the poor. Some command economies are so strict that government officials assign people to specific schools and even careers. Personal economic freedom is limited in a command economic system.

Market Economy

In a **market economy**, the resources are owned and controlled by the people of the country. The three economic questions are answered by individuals through buying and selling of goods and services in the marketplace. The *marketplace* is anywhere that goods and services exchange hands. This includes a supermarket, the Internet, a business office, or even a flea market.

When a business buys a new truck or orders several tons of steel, it is making

an economic decision. An individual consumer who orders a movie on a pay-per-view channel, takes a vacation, or enrolls in college is also making an economic decision. No one directs consumers to make a particular purchase or tells businesses what they must produce. The government has limited involvement in a market economy.

Consumers and businesses make decisions based on their own self-interest. Every time consumers buy products in the marketplace, they “vote” with their dollars. They send a message to businesses regarding their buying preferences, helping to direct the use of resources. Businesses make decisions on what goods and services will be produced based on how they decide to use their resources. When they offer the products and services consumers want, they are rewarded with profits. By those independent decisions, individual

main idea

Differentiate among the main types of economic systems.



What are some disadvantages of living in a market economy?

© Getty Images/PhotoDisc

Work as a Team

Your team represents the citizens of a new country deciding on an economic system. You want to establish a successful economy that provides the greatest benefit to its citizens. What information about the country would you need to know in order to answer the three economic questions?



producers and consumers answer the three economic questions.

Traditional Economy

Before complex economic systems developed, simple economies operated according to tradition or custom. In a **traditional economy**, goods and services are produced the way it has always been done. The traditional economy is used in countries that are less developed and are not yet participating in the global economy.

In those countries, the answers to the three economic questions are still established by their traditions. Goods are produced the way they have always been produced, generation after generation. Children are taught to use the same methods to make the same goods their ancestors produced. They often use the natural resources readily available to them and the hand tools they make. They will consume most of what they produce and sell or trade the rest with people who live close to them.

The traditional economy is usually centered on meeting the basic needs of people, such as food, clothing, and shelter. While the global economy has brought change and growth to the farthest corners of the world, there are still pockets of people living in traditional economic systems. Because these economies lack the many formal structures found in more advanced systems, they usually have limited amounts of material wealth and limited investment in improving their conditions.

Mixed Economies

Most nations of the world can be classified as a mixed economy. A **mixed economy** combines elements of the command and market economies. While the past half-century has seen a shift away from command economies and toward market economies, various degrees of government involvement in the marketplace exist.

The former Soviet Union disbanded and became 15 independent nations in the early 1990s. For more than 70 years, the Soviet Union operated under a command economic system called *communism*. Under communism, the Soviet Union underwent a series of government-led plans to direct resources toward economic growth. This led to a limited choice and supply of consumer goods. Often, consumers found it



How would business ownership be affected by different types of economic systems?

© Getty Images/PhotoDisc

difficult to find such products as bread or a hammer.

During the past decade, several of the Eastern European nations that had used a command economy have made major progress in changing over to a mixed economy. Some of these countries made such economic progress that they were granted membership into the European Union.

More than 1.3 billion Chinese citizens have a communist government that controls most of the resources and decisions. The economy of China is adopting elements of a market system for a growing number of economic decisions. Entire regions of the country, particularly the eastern cities bordering the ocean, are enjoying a booming consumer economy based on greater individual freedom of choice. China is fast becoming a world leader in goods and services produced. A competitive education system produces many skilled workers who are earning money to pay for the goods and services they want.

As many countries with traditional economies develop, they often adopt mixed economies. The government makes many of the decisions about how the country's resources will be used to develop schools, hospitals, roads, and utilities. As people become educated and develop new skills, they are able to obtain jobs and earn money. They then have the resources to purchase more goods and services. Often businesses from other countries will begin to sell products and services in the developing country or even open a business there, offering jobs and locally produced products to the citizens.

checkpoint >>

What are the main differences among the three economic systems?

THE U.S. ECONOMIC SYSTEM

Can you identify the economic system of the United States? Because individual businesses and consumers make most of the decisions about what will be produced and consumed, the U.S. system best fits the definition of the market economy.

Another name for the economic system in the United States is capitalism. **Capitalism** refers to the private ownership of resources by individuals, rather than by the government. Individual owners are free to decide what to produce. Individual consumers are also free to decide what they want to buy. This freedom of production and consumption decisions lends itself to another name often associated with the U.S. economy—*free enterprise* or *private enterprise*. Individual freedom is vital to the success of the U.S. economy.

The U.S. economic system is based on four important principles. They are private property, freedom of choice, profit, and competition.

Private Property

The right of *private property* means you can own, use, or dispose of things of value. In the United States, you can own anything you want and decide what you want to do with it, as long as it does not violate the law. If you invent something of value, you are protected from others taking your idea.

Freedom of Choice

The private enterprise economy is based on freedom of choice. *Freedom of choice* means that you can make decisions independently and must accept the consequences of those decisions. Business owners can decide where to open a business, what to sell, and how to operate the company. Consumers can decide where to shop, what to buy, and what they want to spend. Only when individual decisions

main idea

Describe the economic system of the United States.

harm others will the government regulate freedom of choice.

Profit

Businesses invest resources and take risks for one primary purpose—to earn a profit. *Profit* is the money left from sales after all of the costs of operating a business have been paid. Because businesses are not guaranteed a profit, they may lose the money they have invested. They are challenged to work hard, invest wisely, and produce goods and services that are needed in order to make a profit.

Profit is at the heart of the private enterprise system. Earning a profit is not the only reason for investing money and operating a business. People enjoy the challenge and freedom of business ownership, as well as the satisfaction of providing goods and services that other people want.

Competition

The rivalry among businesses to sell their goods and services is known as *competition*. Consumers have many choices of products and services and will select the one they believe will provide the greatest satisfaction for the money. Businesses must work to improve their products and reduce their costs. If customers are not satisfied with one company's offerings, they will look for another choice. Competition forces businesses to improve products, keep costs low, provide effective customer service, and search for new ideas.

checkpoint >>

Name the four principles of the U.S. economic system.

1-3

Assessment



Key Concepts

Determine the best answer.

- Which of the following addresses the economic question of how to produce?
 - growing corn instead of potatoes
 - requiring individuals to work in a particular career
 - producing more capital goods and fewer consumer products
 - selling natural resources to other countries
- In which of the following economic systems is the government's role greatest?
 - mixed
 - traditional
 - market
 - command
- The primary reason business owners make investments and take risks is to
 - make a profit
 - satisfy customer needs
 - develop new products
 - make their own decisions

Make Academic Connections

- Research** Choose one of the following five countries. Research that country and write a report describing its current economic system.
Chile
Latvia
Costa Rica
Zimbabwe
Singapore
- Math** Use an Internet search engine to gather pricing information on each of the products listed. Identify the highest and lowest price at which each of the products is sold. Calculate the difference in the prices for each product. Create a bar chart that illustrates each of the prices and the amount of difference between the high and low prices.
 - Ford Focus
 - Apple iPod
 - one year of college tuition

1-4

Supply and Demand



Goals

Describe supply and demand orally and with graphs.

Discuss how supply and demand affect prices of products and services.

Key Terms

consumer

producers

demand

supply

market price

Focus on Real Life

Jody and Dennis are both in the mood for some Italian food. Their town has two Italian restaurants, Restaurant Italia and Mamma's Pizzeria. Both Jody and Dennis are on a limited budget, so they are always careful about how they spend their money. Mamma's Pizzeria is famous for its delicious pizza and has excellent service. Restaurant Italia has a broader menu offering both pizza and pasta dishes. Jody and Dennis both feel the food is good but doesn't have that authentic Italian flavor. Often, the restaurant is crowded with slow service. Because Momma's is known for the best pizza in town, the prices are quite a bit higher than at Restaurant Italia. If you were going to eat with Jody and Dennis, how would you decide which restaurant to choose?

PARTICIPATING IN A MARKET ECONOMY

In a market economy, buyers and sellers use the marketplace to make economic decisions. Buying decisions are made by consumers—including individuals, businesses, and government. A **consumer** is a person who buys and uses goods and services. The individual buying decisions of consumers have a tremendous influence on the market economy. Consumers decide what to buy, where to buy, from whom to buy, and what price they are willing to pay.

Producers pay close attention to the needs and activities of consumers. **Producers** are individuals and organizations that determine what products and services will be available for sale. Producers invest resources and take risks in order to make a profit. They determine what products and services will be available in the economy, what needs and wants they will try to satisfy, and the prices they want to receive.

It may seem that the economy is a big, unorganized system in which everyone pursues his or her own self-interest. You may wonder how the system can work when each business makes its own decisions about what to produce, while each consumer makes a decision about what and where to buy. The system does work

main idea

Describe supply and demand orally and with graphs.



What are the advantages of being a consumer in a free enterprise economy?

© Digital Vision

and works well based on the principles of supply and demand.

Consumers Set Demand

When consumers make decisions about what they will purchase, they determine the demand for goods and services. **Demand** is the quantity of a good or service that consumers are willing and able to buy. A business can prosper or fail based on the demand for their products and services. For example, if a new restaurant opens in your town, but the service is slow, the quality of the food is poor, and the noise level is high, will consumers continue to eat there? It is not likely. Suppose a new restaurant opens with terrific food as well as fast and friendly service. That restaurant will probably be packed with people waiting in line for dinner.

Producers Establish Supply

Understanding demand tells a business what type and what quantity of products and services to supply. **Supply** refers to the quantity of a good or service that businesses are willing and able to provide. If consumers are seeking a popular product and are willing to pay a high price for it, businesses will provide the product to meet customer needs. On the other hand, if there is heavy competition for a product keeping the prices low or if customers are tiring of an

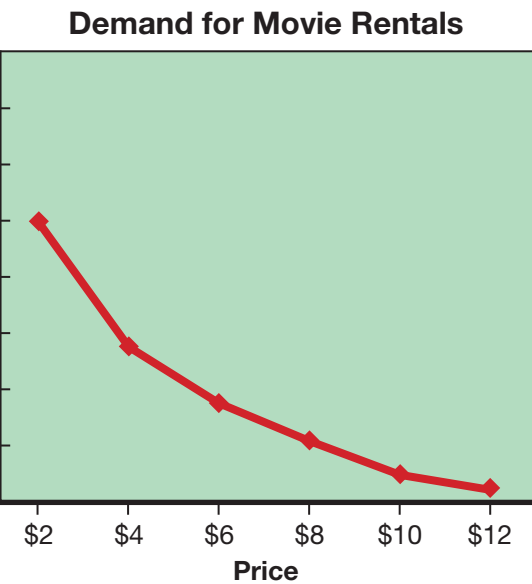


FIGURE 1-2

The quantity of a product customers are willing to purchase at various prices can be illustrated with a graph known as a demand curve.

older product, businesses are less likely to want to offer the product for sale.

A Graphic View

Demand and supply for a product or service can be illustrated using graphs known as demand curves and supply curves. The *demand curve* for a product illustrates the relationship between the price of a

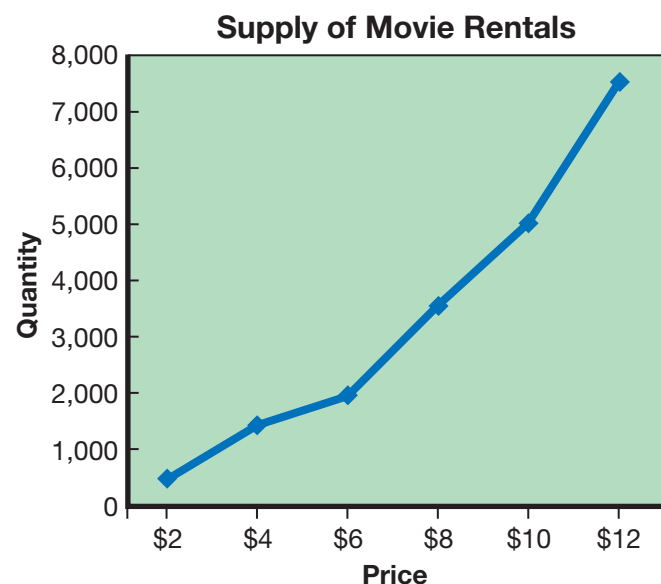


FIGURE 1-3

The quantity of a product businesses are willing to supply at various prices can be illustrated with a graph known as a supply curve.

product and the quantity demanded by consumers. As the price decreases, the number of consumers willing and able to purchase the product will increase. Figure 1-2 illustrates the possible demand for movie rentals at various prices.

In the same way, the *supply curve* for a product illustrates the relationship between the price of the product and the quantity businesses will supply. As the price increases, businesses will be willing to supply larger quantities of the product. Figure 1-3 illustrates the possible supply of movie rentals at various prices.

checkpoint >>

How does the price of a product affect demand and supply?

DETERMINING PRICE

Why is the price of a hotel room in Phoenix, Arizona, higher in winter than summer? Why do the prices of many of the products sold by farmers remain quite low? Prices are affected by the relationship between supply and demand, plus other factors.

Factors Influencing Demand

If many consumers want (or demand) a particular good or service, its price will tend to go up. More people vacation in Phoenix in the winter than in the summer so demand and prices for hotel rooms rise. When fewer people visit that area during the hot summer, the supply of hotel rooms is greater than the demand. Therefore, prices will decline.

When customers see a number of products that they believe will satisfy a particular want or need, demand for any one of those products will not be as high. Customers will be willing to switch from one product to another if the price of one is much higher than the others. When customers cannot find a good substitute

for a product they want, demand for that product will be high. Even if the price increases, they will be willing to pay the higher price because they are unwilling or unable to switch to another choice.

Factors Influencing Supply

The supply of a product can also affect the price. Because the supply of many of the crops and livestock raised on farms is large, prices remain low. If a drought cuts the quantity of corn grown by Midwest farmers one year, the price of corn will increase.

Competitors are businesses offering very similar products to the same customers. As the number of competitors increases, so does supply. A business will not be able to easily raise its prices. It will have to be much more sensitive to the prices charged by its competitors.

When competition is limited, consumers cannot find good alternatives. If you live in a part of town where there is only one supermarket, the prices at that store will often be higher due to a lack of competition. The prices of products featuring new technology will often be high because the company offering the new product seldom has direct competition.

Sometimes a natural disaster or other unforeseen circumstance affects supply. If the supply of oil, gasoline, or water is disrupted, their prices will increase. The supply of other products that use those resources in production may also be affected and their prices can increase as

main idea

Discuss how supply and demand affect prices of products and services.

Work as a Team

The prices of some products change a great deal in a short time, while the prices for other products remain quite stable. Work as a team to identify several products that experience regular price changes and several that do not. Discuss how supply and demand appear to affect the prices of the products in each of the teams.



well. Sometimes businesses will try to restrict supply of products in order to obtain a higher price. That will only work if customer demand is high and if there are no good substitutes for the product.

Determining Market Price

Supply, demand, and competition determine the market price for a product or service. The **market price** is the point where supply and demand are equal. Figure 1-4 shows the market price for movie rentals. Consumers are willing to rent nearly 2,000 movies and businesses are willing to supply that same number of movies if the rental price is just below \$6.00 per movie.

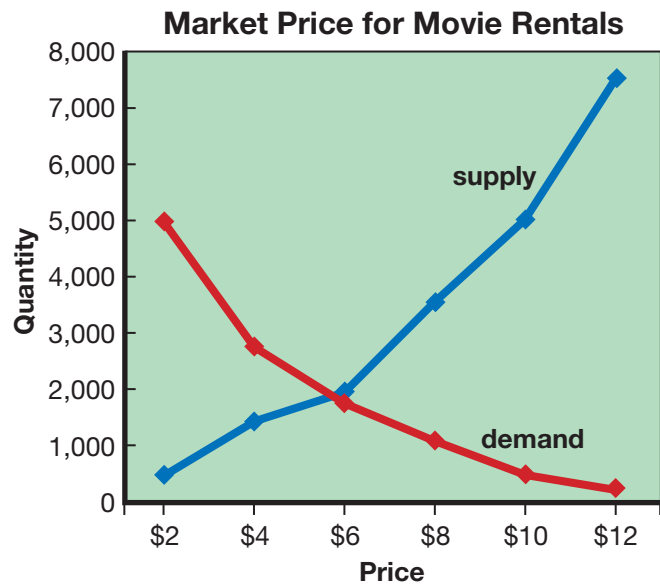


FIGURE 1-4

The market price for a product is the point where supply and demand are equal.

checkpoint >>

How is the market price for a product determined?

1-4

Assessment

Xtra!
Study Tools

school.cengage.com/business/introtobiz

Key Concepts

Determine the best answer.

1. True or False. Both individuals and organizations can be producers.
2. True or False. Supply is the quantity of a good or service that a consumer is willing and able to buy at a particular price.
3. As competition increases, prices
 - a. usually increase as well
 - b. are not affected so will usually not change
 - c. usually will decrease
 - d. There is no way to predict what will happen to prices due to competition.

Make Academic Connections

4. **Math** Calculate the total value of sales at each possible price for a product with the consumer demand shown in the table.

Price	Quantity demanded
\$20.00	8,500
\$22.50	7,800
\$25.00	6,200
\$27.50	5,900
\$30.00	4,300

5. **Communication** Write a memo to an entrepreneur who is opening a new restaurant in your community. Explain the importance of supply and demand in determining the prices to charge at the restaurant. Give the new business owner advice on how to avoid lower prices due to competition.



BUSINESS IMPROVING SOCIETY

Heifer International

Ending hunger and poverty around the world! It sounds like such a big dream that no one would undertake it. Nevertheless, since 1944, Heifer International has had that dream as its goal. Through a unique program of giving communities a source of food rather than just distributing food, the organization has reached millions of families in more than 115 countries.

Dan West was a Midwestern farmer serving as a relief worker during the Spanish Civil War. With a limited supply of milk and food, he had to decide who would receive the rations and who would not.

As a farmer, Mr. West realized that if people had livestock, farming tools, and some assistance in learning effective farming practices, they would have the capability to raise food for themselves and their families for a lifetime.

He returned to the United States and formed Heifers for Relief. He asked other farmers to donate a heifer. Dan delivered the first shipment of 17 heifers to Puerto Rico, giving them to families with malnourished children who had never tasted milk before. Why heifers? The young cows would give birth to a new calf. Each family that received a heifer and training in how to raise and maintain dairy animals was asked to “pass on the gift” by donating a calf to another family.

For more than 60 years, Heifer International has been developing new projects around the world. Their mission is to work with communities to end hunger and poverty and to care for the earth. They envision a

world of communities living together in peace and sharing the resources of a healthy planet. Today, hundreds of thousands of people continue to donate heifers, rabbits, goats, and chickens. Others make cash contributions to purchase livestock and supplies. Many people volunteer their time to travel to the rural communities with the animals to provide training and assistance so that the livestock will remain healthy, grow, and multiply for further distribution.

Recent projects of Heifer International include:

- Sending five rural veterinarians to Mongolia to work with animal herders to teach them improved animal management. These herders will then work with 500 additional herding families.
- Distributing 140 dairy cattle to 100 farm families in Kosovo who were victims of the war in their country in 1999.
- Placing 500 hives of bees in five Adaklu communities in Ghana, Africa. The communities will be taught hive management and honey harvesting techniques that do not harm the environment. Honey is a major source of nutrition in an otherwise malnourished area that suffers from illiteracy and high child mortality.

Think Critically

1. How does this approach to solving world hunger differ from other relief efforts that distribute food, milk, clothing, and health supplies?
2. Use the Internet to locate examples of other organizations that are working to reduce hunger around the world. How are they similar to or different from Heifer International?



© Getty Images/PhotoDisc

CHAPTER 1 Assessment

Xtra! Quiz Prep

school.cengage.com/business/introtobiz

Business Notes

1-1 SATISFYING NEEDS AND WANTS

1. Things that are necessary in order to live are needs. Things that add comfort and pleasure to life are wants.
2. Goods are things that you can see and touch. Services are intangible, meaning they have no physical characteristics.
3. Economic resources are the means through which goods and services are produced. Economic resources are also known as factors of production. The three kinds of economic resources are natural resources, human resources, and capital resources.

1-2 ECONOMIC CHOICES

4. Most choices result from considering a number of alternatives. When you give up some thing to have something else, you are making a trade-off. The opportunity cost is the value of the next best choice.
5. The six steps in the decision-making process are: define the problem, identify the choices, evaluate each choice, make a choice, act on the choice, and review your decision.

1-3 ECONOMIC SYSTEMS

6. All economies must answer three economic questions: What goods and services will be produced? How will the goods and services be produced?

What needs and wants will be satisfied with the goods and services produced?

7. A nation's plan for answering the three economic questions is its economic system. In a command economy, the resources are owned and controlled by the government. In a market economy, the resources are owned and controlled by the people of the country. In a traditional economy, goods and services are produced the way it has always been done. A mixed economy combines elements of command and market economies.
8. Capitalism refers to the private ownership of resources by individuals rather than by the government. The U.S. economic system is based on the principles of private property, freedom of choice, profit, and competition.

1-4 SUPPLY AND DEMAND

9. In a market economy, buyers and sellers use the marketplace to make economic decisions. Demand is the quantity of a good or service that consumers are willing and able to buy. Supply is the quantity of a good or service that businesses are willing and able to provide.
10. If many consumers demand a particular good or service, its price will go up. If competition increases and therefore customers have choices, businesses will not be able to easily raise their prices. The market price is the point where supply and demand are equal.

Communicate Business Concepts

1. Identify five products or services that could be either a need or a want. Provide an example for each that illustrates when it would be considered a need and when it would be considered a want.
2. Select a business with which you are familiar. Describe factors of production used by the business that fit within each of the three kinds of economic resources.
3. Find a newspaper or magazine article that deals with scarcity of a product, service, or natural resource. Write a summary of the article in which you identify who is affected by the scarcity and the effect it is having on business or consumer markets.
4. Identify a problem you will face in the near future, such as selecting a college or career or making a major purchase. Describe how you would complete each step in the decision-making process for the problem.

5. Identify a possible opportunity cost for each of the following:
 - a. Trying out for an athletic team
 - b. Accepting a part-time job
 - c. Studying for an important exam
 - d. Saving money to buy a used car
 - e. Obtaining a loan to start a business
6. Develop a table that compares the answers to the three economic questions in a command economy, a market economy, and a traditional economy.
7. Explain how freedom of choice can affect the availability of products and services for consumers. Now explain how it can also affect the profit a business might make on the products and services it sells.
8. Do you agree that the term “private enterprise” is a good description of the U.S. economy? Why or why not?
9. Select a product that is a regular purchase of many consumers. Use a graphing program to develop an illustration of a supply and demand curve for the product. Prepare a brief oral description of the illustration.
10. Review recent news reports of products and services where the price has been affected by supply and demand factors. Write a report using those examples that discusses the effect of supply and demand on prices.

Develop Your Business Language

Match the terms listed with the definitions.

11. Process of choosing which wants, among several options, will be satisfied.
12. Individuals and organizations that determine what products and services will be available for sale.
13. A nation’s plan for answering the three economic questions.
14. Means through which goods and services are produced.
15. Things that are required in order to live.
16. Not having enough resources to satisfy every need.
17. Quantity of a good or service that businesses are willing and able to provide.
18. Person who buys and uses goods and services.
19. System in which resources are owned and controlled by the government.
20. Things that you can see and touch.
21. Private ownership of resources by individuals rather than by the government.
22. System in which goods and services are produced the way they have always been done.
23. System that combines elements of the command and market economies.
24. Quantity of a good or service that consumers are willing and able to buy.
25. Point where supply and demand are equal.
26. Things that add comfort and pleasure to your life.
27. Activities that are consumed at the same time they are produced.
28. Giving up on something to have something else.
29. Value of the alternative you did not choose.
30. System in which the resources are owned and controlled by the people of the country.

KEY TERMS

- a. capitalism
- b. command economy
- c. consumer
- d. demand
- e. economic decision-making
- f. economic resources
- g. economic system
- h. goods
- i. market economy
- j. market price
- k. mixed economy
- l. needs
- m. opportunity cost
- n. producers
- o. scarcity
- p. services
- q. supply
- r. trade-off
- s. traditional economy
- t. wants

Make Academic Connections

- 31. RESEARCH** Identify a product for which you believe there is a great deal of competition and one that you believe has very little competition. Use the Internet, newspapers, or personal shopping to identify the prices charged by three companies offering the product. Prepare a table to show the information you collected. Based on that information, do you believe you were correct in your original decision about the amount of competition for each product? How does the information support your belief?
- 32. DECISION-MAKING** Sheila's father told her that with the family's limited resources, she would have to choose between continuing her dance lessons or a season ticket to the monthly performances of the local theater. This means that Sheila is on step 3 of the decision-making process. Complete step 4 for Sheila, listing the advantages and disadvantages of the two choices.
- 33. COMMUNICATION** Your community has received a gift of 100 acres of land from a long-time citizen. A community group is encouraging the city council to use the land to develop a park. Another group would prefer that it be developed as an area for new small businesses. Prepare a one-page report for the city council comparing the two choices based on opportunity costs.
- 34. MATH** The table below shows the average number of working hours it takes a worker in three cities in different countries to earn enough money to purchase several products and services. Use the information to answer the following questions:
- How much longer than the worker in Country 1 must a worker in Country 3 work to earn enough to buy food for a family of four for a total of four weeks? Than a worker in Country 2?
 - How many eight-hour days would a worker in each country have to work to buy a large-screen TV?
 - What is the total amount of time a worker in each country would have to work to purchase each of the products and services listed?

	COUNTRY 1	COUNTRY 2	COUNTRY 3
1 lb. of ground beef	17.0 min.	29.0 min.	56.0 min.
Large-screen TV	65.0 hr.	132.0 hr.	701.0 hr.
1 tube of toothpaste	16.0 min.	13.0 min.	27.0 min.
City bus fare	7.0 min.	11.0 min.	3.0 min.
1 pair of men's shoes	8.0 hr.	7.0 hr.	25.0 hr.
1 week of food for a family of 4	18.6 hr.	24.7 hr.	53.5 hr.

Linking School and Community

Interview the manager of a local grocery store or specialty retail store to learn more about how supply and demand work to establish the market price for products and services. Find one example where there appears to be evidence of high consumer demand, another with

evidence of a great deal of competition among businesses, and a third where other factors seem to be influencing the market price of a product or service. Prepare an oral report to describe what you learned about supply, demand, and price to other students in your class.

Web Workout

The U.S. government collects and reports information about the U.S. economy that is useful to businesses and individuals. The U.S. Census Bureau features economic data on its web site, including economic indicators that provide important information about changes in the U.S. economy. Use your web browser to access the Census Bureau's web site and locate the link to "Economic Indicators." Select one of the indicators and investigate how it has changed over the past 10 years.

Think Critically

- Prepare a table to present the economic information you found. Use the data in your table to prepare a chart or graph.
- Write a one-paragraph description of your findings. Include a statement explaining how the economic indicator helps people understand the U.S. economy. Also include information about how the indicator you selected might be used by businesses or individual citizens.

Decision-Making Strategies

35. Countries that make efficient use of capital goods can produce more with fewer people in a shorter time than countries in which many workers perform the work by manual labor. Study the figures below for farm workers and their yearly output in two different kinds of economic systems, then answer the questions that follow.
- How many more people were working in agricultural jobs in the traditional economy than in the market economy?
 - In which system was each farm worker more productive?
 - In terms of people supplied from the output of each farm worker, how much more productive was the worker in (b)?

	TRADITIONAL ECONOMY	MARKET ECONOMY
Size of the agriculture labor force	34,350,000	4,380,000
Number of people supplied with food from the labor of each agriculture worker	7	49

Entrepreneurship Event

Entrepreneurs are leaders who take the risk of starting new business ventures. Individuals who are willing to start a business face more than a 50 percent chance of failure within the first five years of operation. Successful entrepreneurs must conduct research, secure financing, and convince consumers to purchase the goods/services they offer.

You must develop a business plan for a new business in your community. The business plan must not exceed 10 single-spaced pages.

Your business plan must include the products or services to be provided, market analysis, customer profile, competition, short-range operational goals, financial analysis (income statement, balance sheet, cash flow statement, and other analyses), and supporting research documents.

You will orally present your business plan to the class/judges for 10 minutes. Class members or judges have up to five minutes to ask you questions about your business plan.

PERFORMANCE INDICATORS EVALUATED

- Develop a written business plan for a start-up business.
- Identify the customer base, including consumer and organizational markets and highlighting demographics.

- Analyze financial data.
- Demonstrate successful price selection methods.
- Identify and use internal and external resources.

You will be evaluated for your

- Knowledge and understanding of entrepreneurship
- Communication of research in a clear and concise manner both orally and in writing
- Demonstration of effective persuasive and informative communication and presentation skills

For more detailed information about performance indicators, go to the BPA web site.

Think Critically

- Why does your community need the business you have selected?
- What are your strengths, weaknesses, opportunities, and threats with this business proposal?
- What is the most effective means to advertise your business?
- Who are the sources to finance your business idea?
- When do you plan on first making a profit with this business venture?

<http://www.bpanet.org/>



Portfolio Activity

school.cengage.com/business/introtobiz

Access the web site shown here to find portfolio activities for this chapter. Use the activities to provide tangible evidence of your learning.